

House File 418 - Introduced

HOUSE FILE 418

BY IVERSON

A BILL FOR

1 An Act creating a mandatory defined contribution pension
2 plan for certain covered employees and making the plan
3 optional for all other employees covered by the Iowa public
4 employees' retirement system.
5 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 97B.1, subsection 1, Code 2011, is
2 amended to read as follows:

3 1. The *"Iowa Public Employees' Retirement System"* is
4 established as an independent agency within the executive
5 branch of state government. The Iowa public employees'
6 retirement system shall administer the retirement system
7 established under this chapter and the retirement plan
8 established under chapter 97E.

9 Sec. 2. Section 97B.1, subsection 2, Code 2011, is amended
10 by adding the following new paragraph:

11 NEW PARAGRAPH. *0d.* *"Defined contribution plan"* means the
12 Iowa public employees' defined contribution plan created in
13 chapter 97E.

14 Sec. 3. Section 97B.1A, unnumbered paragraph 1, Code 2011,
15 is amended to read as follows:

16 When used in this chapter and chapter 97E, unless the context
17 otherwise requires:

18 Sec. 4. Section 97B.42, Code 2011, is amended by adding the
19 following new subsections:

20 NEW SUBSECTION. 9. Notwithstanding any other provision
21 of this section, commencing July 1, 2013, a member in regular
22 service may elect coverage under the defined contribution plan
23 created in chapter 97E, in lieu of continuing contributions
24 to the Iowa public employees' retirement system or in lieu
25 of opting out of coverage under this chapter pursuant to
26 section 97B.42A. However, the employer's annual contribution
27 in dollars to the defined contribution plan shall not exceed
28 the annual contribution in dollars which the employer would
29 contribute if the employee had elected to remain an active
30 member under this chapter, as set forth in section 97B.11. A
31 member who elects coverage under the defined contribution plan
32 may withdraw the member's accumulated contributions and the
33 member's share of the accumulated employer contributions as
34 provided in section 97B.53, effective when coverage under the
35 defined contribution plan commences. A member who is employed

1 in a position as an employee in regular service and who is
 2 covered under the system in this chapter on July 1, 2013, must
 3 file an election for coverage under the defined contribution
 4 described in chapter 97E, with the system and the member's
 5 employer within eighteen months of the first day on which
 6 coverage commences under the defined contribution plan, or the
 7 employee shall remain a member under this chapter and shall not
 8 be eligible to elect to participate in the defined contribution
 9 plan at a later date. A decision to elect out of coverage
 10 under this chapter and to elect to participate in the defined
 11 contribution plan is irrevocable upon approval from the system.

12 NEW SUBSECTION. 10. A person who is newly hired in a
 13 position as an employee in regular service on or after July
 14 1, 2013, shall become a member of the Iowa public employees'
 15 defined contribution retirement plan created in chapter 97E and
 16 shall not be considered to have entered covered employment for
 17 the purposes of the benefits plan created in this chapter.

18 NEW SUBSECTION. 11. Notwithstanding any provision of this
 19 section to the contrary, a member of the system who is subject
 20 to a qualified order for the purpose of enforcing child,
 21 spousal, or medical support obligations or marital property
 22 orders pursuant to section 97B.39 shall not be eligible to
 23 transfer to the defined contribution plan created in chapter
 24 97E unless the order is modified to apply under the defined
 25 contribution plan created in chapter 97E.

26 Sec. 5. NEW SECTION. 97E.1 Plan created — definitions.

27 1. An Iowa public employees' defined contribution
 28 retirement plan is created within the Iowa public employees'
 29 retirement system.

30 2. As used in this chapter, unless the context otherwise
 31 requires:

32 a. "Board" means the defined contribution advisory board
 33 created in section 97E.2.

34 b. "Defined benefit system" means the Iowa public employees'
 35 retirement system created in chapter 97B.

1 *c. "Member"* means an employee who has elected coverage under
2 the plan and who has a retirement account in the plan.

3 *d. "Plan"* means the Iowa public employees' defined
4 contribution retirement plan created in this chapter.

5 *e. "Retirement account"* means an individual participant's
6 account that includes both employee and employer contributions
7 and investment gains and losses, less any plan administrative
8 expenses.

9 *f. "System"* means the Iowa public employees' retirement
10 system created in chapter 97B.

11 Sec. 6. NEW SECTION. **97E.2 Defined contribution advisory**
12 **board.**

13 1. *Board established.* A board is established to be known
14 as the defined contribution advisory board, referred to in
15 this chapter as the "*board*". The duties of the board are to
16 review matters relating to the establishment and management
17 of the plan. The board shall meet upon the call of the chief
18 executive officer of the Iowa public employees' retirement
19 system.

20 2. *Investment review.* The board shall review, at least
21 annually, the products, investments, and services offered by
22 the providers under the plan and the investment information
23 available to members and potential members of the plan on an
24 ongoing basis.

25 3. *Membership.*

26 *a.* The board shall consist of six voting members. The
27 voting members shall be as follows:

28 (1) Two public members, appointed by the governor, who are
29 not members of the defined benefit system created in chapter
30 97B or the plan created in this chapter.

31 (2) Two members, appointed by the governor, who are eligible
32 to be members of the plan. Of the two members appointed,
33 one shall be an active member who is an employee of a school
34 district, area education agency, or merged area and one
35 shall be an active member who is not an employee of a school

1 district, area education agency, or merged area.

2 (3) Director of the department of administrative services.

3 (4) One member, appointed by the governor, who represents
4 employers of employees eligible to be members of the plan who
5 are not state employees.

6 b. Four voting members of the board shall constitute a
7 quorum.

8 c. The two public members and the one employer member shall
9 be paid their actual expenses incurred in the performance of
10 their duties and shall receive a per diem as specified in
11 section 7E.6 for each day of service not exceeding forty days
12 per year. The members who are eligible to be a member of the
13 plan and the director of the department of administrative
14 services shall be paid their actual expenses incurred in the
15 performance of their duties as members of the board, and the
16 performance of their duties as members of the board shall not
17 affect their salaries, vacations, or leaves of absence for
18 sickness or injury.

19 d. The appointive terms of the members appointed by the
20 governor are for a period of six years beginning and ending
21 as provided in section 69.19. If there is a vacancy in the
22 membership of the board for one of the members appointed by
23 the governor, the governor has the power of appointment.
24 Gubernatorial appointees to this board are subject to
25 confirmation by the senate.

26 Sec. 7. NEW SECTION. 97E.3 Defined contribution plan
27 established — assets to be held in trust — contracted
28 services.

29 1. The system shall establish a defined contribution plan
30 in accordance with this chapter. The plan must be established
31 as a pension plan for the exclusive benefit of members and
32 their beneficiaries and as a qualified plan pursuant to section
33 401(a) of the Internal Revenue Code and its implementing
34 regulations. Retirement accounts must be established for each
35 member of the plan. Assets of the plan must be held in trust.

1 The system shall be the trustee of the plan. The plan is
2 established in addition to any retirement, pension, deferred
3 compensation, or other benefit plan administered by the state
4 or a political subdivision.

5 2. The system shall contract for plan administration and
6 use a competitive bidding process when contracting for services
7 for the plan. Services include consulting, educational,
8 investment, recordkeeping, or other services for the plan.

9 Sec. 8. NEW SECTION. 97E.4 Iowa public employees'
10 retirement system — powers and duties — rulemaking.

11 1. The system has the powers and shall perform the duties
12 regarding the plan, as applicable.

13 2. The system shall, in accordance with chapter 17A,
14 adopt rules necessary for the administration of this chapter,
15 including rules concerning the following:

16 a. Matters necessary for the treatment of the plan or plans
17 as a qualified plan under applicable sections of the Internal
18 Revenue Code.

19 b. The treatment of dormant or inactive accounts.

20 c. The security and privacy of information maintained by
21 the system concerning a member's investments, as required by
22 applicable law.

23 d. Minimum asset, reserve, insurance, or other security
24 requirements intended to ensure the solvency of a contractor
25 used by the system for investment services.

26 e. The commencement of benefit payments under the plan.

27 Sec. 9. NEW SECTION. 97E.5 Administrative expenses and
28 fees.

29 1. The system may establish a fund within the plan for
30 paying the plan's administrative expenses.

31 2. The system may do any of the following:

32 a. Assess fees to pay the reasonable administrative costs
33 of the plan.

34 b. Negotiate with a vendor or vendors for vendor
35 reimbursement of administrative expenses for the plan.

1 3. All fees assessed must be fully disclosed to plan members
2 and treated as public information.

3 4. Costs for the system to provide for contract oversight
4 are included as part of the administrative expenses of the
5 plan.

6 Sec. 10. NEW SECTION. **97E.6 Membership.**

7 Except as otherwise provided in this chapter, a member of
8 the plan means an employee who has commenced covered employment
9 on or after July 1, 2013, or any employee commencing covered
10 employment prior to that date and who has elected coverage
11 under the plan.

12 Sec. 11. NEW SECTION. **97E.7 Transfers or rollovers into**
13 **plan.**

14 The plan shall accept the rollover and direct transfer
15 of contributions and the income on those contributions from
16 another eligible retirement plan to the member's account. The
17 plan's acceptance of regular rollovers, direct rollovers, and
18 direct transfers from another eligible retirement plan shall
19 only be to the extent permitted by the Internal Revenue Code.
20 The term "*direct rollover*" includes a rollover of a member's
21 account balance in the system to the plan pursuant to a plan
22 choice election authorized under section 97B.42.

23 Sec. 12. NEW SECTION. **97E.8 Vesting — allocation of**
24 **contributions.**

25 1. A member is fully vested in the plan with respect to the
26 member's and employer's contributions and the income from those
27 contributions from the date that the employee becomes a member
28 of the plan.

29 2. Each member's retirement account in the plan shall be
30 credited with member and employer contributions calculated as
31 provided in section 97B.10. Member contributions shall be
32 treated in the same manner as provided for contributions made
33 under section 97B.11 pursuant to section 97B.11A for federal
34 and state income tax purposes.

35 Sec. 13. NEW SECTION. **97E.9 Maximum contribution**

1 limitation.

2 The annual additions to a retirement account in the plan
3 shall not exceed the annual limits on contributions as
4 specified in section 415 of the Internal Revenue Code and
5 adjusted annually by the commissioner of internal revenue.

6 Sec. 14. NEW SECTION. 97E.10 Investment alternatives —
7 notice of changes — default fund.

8 1. The system shall select providers for the plan to provide
9 for a sound and diversified mix of products, investments, and
10 services from which individual members may select alternatives
11 for the investment of the member's retirement account to
12 achieve the member's financial and retirement goals. At least
13 four of the providers selected shall be insurance companies
14 authorized to issue annuity contracts in this state. The
15 system may limit the providers selected to no more than six.
16 The selection by the system of a provider shall not constitute
17 an endorsement of the provider.

18 2. The system shall from time to time review the suitability
19 and management of the products, investments, and services
20 offered by providers and may change the products, investments,
21 and services to be offered. The system shall notify affected
22 members of potential changes in products, investments, and
23 services before any changes become effective.

24 3. Assets within each member's retirement account must be
25 invested as directed by the member.

26 4. The system shall provide for a balanced alternative
27 investment to be established as a default alternative
28 investment. If a member fails to direct how the member's
29 retirement account is to be invested, the member's entire
30 account balance shall be invested in the default alternative
31 investment.

32 Sec. 15. NEW SECTION. 97E.11 Payout of retirement account
33 balances when terminating plan membership.

34 Any time after termination of covered employment by a
35 member, a member or the member's beneficiary may terminate plan

1 membership by making a written application to the system and
2 removing the member's retirement account balance from the plan
3 through any combination of the following payout options, each
4 of which is subject to applicable regulations of the internal
5 revenue service:

6 1. A direct rollover to an eligible retirement plan or to an
7 individual retirement account or annuity pursuant to section
8 401(a)(31) of the Internal Revenue Code.

9 2. A regular rollover to an eligible retirement plan
10 pursuant to section 402(c) of the Internal Revenue Code.

11 3. A lump sum distribution of the member's retirement
12 account balance.

13 Sec. 16. NEW SECTION. 97E.12 Distribution options for plan
14 members — rulemaking — minimum distribution requirements —
15 restrictions.

16 1. Subject to the requirements of this chapter and chapter
17 97B, if applicable, a member may, after termination of covered
18 employment, leave the member's retirement account balance in
19 the plan, and the member is eligible for a distribution as
20 provided in this section.

21 2. After termination of covered employment, upon written
22 application to the system, a member may select a distribution
23 option offered pursuant to a contract negotiated by the system
24 with a plan vendor or vendors.

25 3. A member who is less than seventy and one-half years of
26 age who returns to covered employment shall not continue to
27 receive a distribution under this section while the member is
28 actively employed in a covered position.

29 4. The system shall adopt rules pursuant to chapter 17A
30 to administer this section and to provide that distributions
31 comply with the minimum distribution requirements established
32 in the Internal Revenue Code.

33 Sec. 17. NEW SECTION. 97E.13 Death benefits.

34 A plan member's beneficiary shall be designated and
35 determined pursuant to rules adopted by the system under

1 chapter 17A. Upon written application filed with the system
2 after the death of a plan member, the member's beneficiary is
3 entitled to the member's retirement account balance and all
4 rights established in and subject to this chapter.

5 **Sec. 18. NEW SECTION. 97E.14 Minimum retirement account**
6 **balance required for membership after termination — adjustment**
7 **by rule.**

8 1. *a.* If a member's retirement account balance is less than
9 the current maximum amount prescribed by the internal revenue
10 service that may be distributed without triggering automatic
11 rollover rights at the time that the member terminates covered
12 employment, the member shall terminate plan membership by
13 removing the member's retirement account balance from the plan
14 in a manner provided pursuant to section 97E.11.

15 *b.* If the member fails to remove the member's retirement
16 account balance, the system may close the account by paying
17 to the member a lump sum distribution of the member's entire
18 account balance.

19 2. The system may by rule adjust the minimum retirement
20 account balance provided in this section as necessary to
21 maintain reasonable administrative costs and to account for
22 inflation and to ensure compliance with applicable internal
23 revenue service requirements.

24 **Sec. 19. DEFINED CONTRIBUTION ADVISORY BOARD — INITIAL**
25 **APPOINTMENTS.** Notwithstanding any provision of section
26 97E.2 to the contrary, the term of membership for an initial
27 appointment to the defined contribution advisory board shall
28 be as follows:

29 1. The following shall be appointed for an initial six-year
30 term: One employee member and one public member, as designated
31 by the governor.

32 2. The following shall be appointed for an initial four-year
33 term: One employer member and one public member, as designated
34 by the governor.

35 3. The following shall be appointed for an initial two-year

1 term: One employee member, as designated by the governor.

2 EXPLANATION

3 This bill establishes a mandatory defined contribution
4 retirement plan for all employees commencing covered employment
5 on or after July 1, 2013, and creates an option for employees
6 covered under the Iowa public employees' retirement system
7 (IPERS) to elect out of coverage under that system and into a
8 defined contribution plan established by IPERS effective July
9 1, 2013.

10 Membership in the defined contribution plan is established
11 by the bill. The bill provides that a person hired on or
12 after July 1, 2013, in regular service, who would otherwise
13 be eligible for coverage under the defined benefit system of
14 IPERS, must commence coverage under the defined contribution
15 plan established by IPERS. Active members of IPERS in regular
16 service as of July 1, 2013, are given an option for 18 months
17 from July 1, 2013, to transfer to the defined contribution
18 plan. If a member transfers coverage, IPERS shall transfer
19 moneys to the member's account in the defined contribution plan
20 in an amount equal to the amount the person would be eligible
21 to receive as a refund if the person terminated membership
22 under IPERS.

23 The bill provides that IPERS shall establish the defined
24 contribution plan as a qualified plan pursuant to section
25 401(a) of the Internal Revenue Code and shall be the trustee
26 of the plan. The bill provides that IPERS shall contract for
27 the administration of the plan through a competitive bidding
28 process. The bill authorizes IPERS to assess fees for the
29 administration of the plan.

30 The bill provides for the establishment of a defined
31 contribution advisory board which shall review, at least
32 annually, the investment alternatives provided under the plan.
33 The board consists of six members, to include the director
34 of the department of administrative services, two employee
35 members who would be eligible to be in the plan, one employer

1 member, and two public members. Except for the director of the
2 department of administrative services, the governor appoints
3 the members of the board. Of the two employee members, one
4 shall be a school employee and one shall not. The employer
5 member shall represent employers of employees who are not state
6 employees. The bill further provides transition provisions
7 governing the terms of initial appointments to the board.

8 The bill provides that a member shall be vested in the
9 defined contribution plan immediately.

10 The bill provides that contributions to the plan from
11 employers and employees shall be pretax and based on the
12 contribution percentage rates under Code chapter 97B.

13 The bill provides that IPERS shall select a diversified mix
14 of investment alternatives under the plan and may limit the
15 number of investment providers to no more than six. The bill
16 provides that at least four investment providers be insurance
17 companies authorized to issue annuity contracts in this state.
18 The bill provides that moneys in a member's retirement account
19 shall be deposited in a balanced fund if the member fails to
20 select an investment option. Distributions to plan members,
21 eligible rollovers of accounts, and death benefit provisions
22 are included in the bill. The bill also provides for an
23 immediate distribution of moneys in a member's account if the
24 account balance is less than the maximum amount prescribed by
25 the internal revenue service that can be distributed without
26 triggering automatic rollover rights.